



State Fiscal Outlook



TEF

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Current Economic and Fiscal Situation

...the New Norm

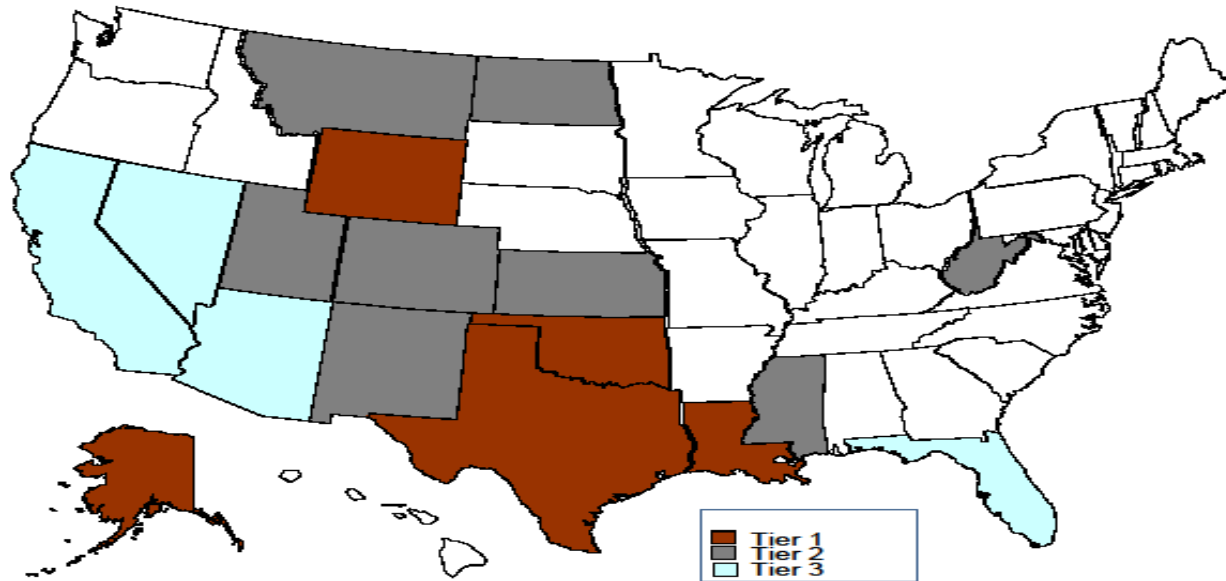




State Government Challenges

- Tighter Resources
- Demographic Changes
- Debt
- State Revenue
 - Will future revenue reflect economy?
 - Enough for infrastructure?
- Federal Spending Decline
 - Direct - Decreased Federal Funds and Contracts
 - Indirect – Defense Cuts

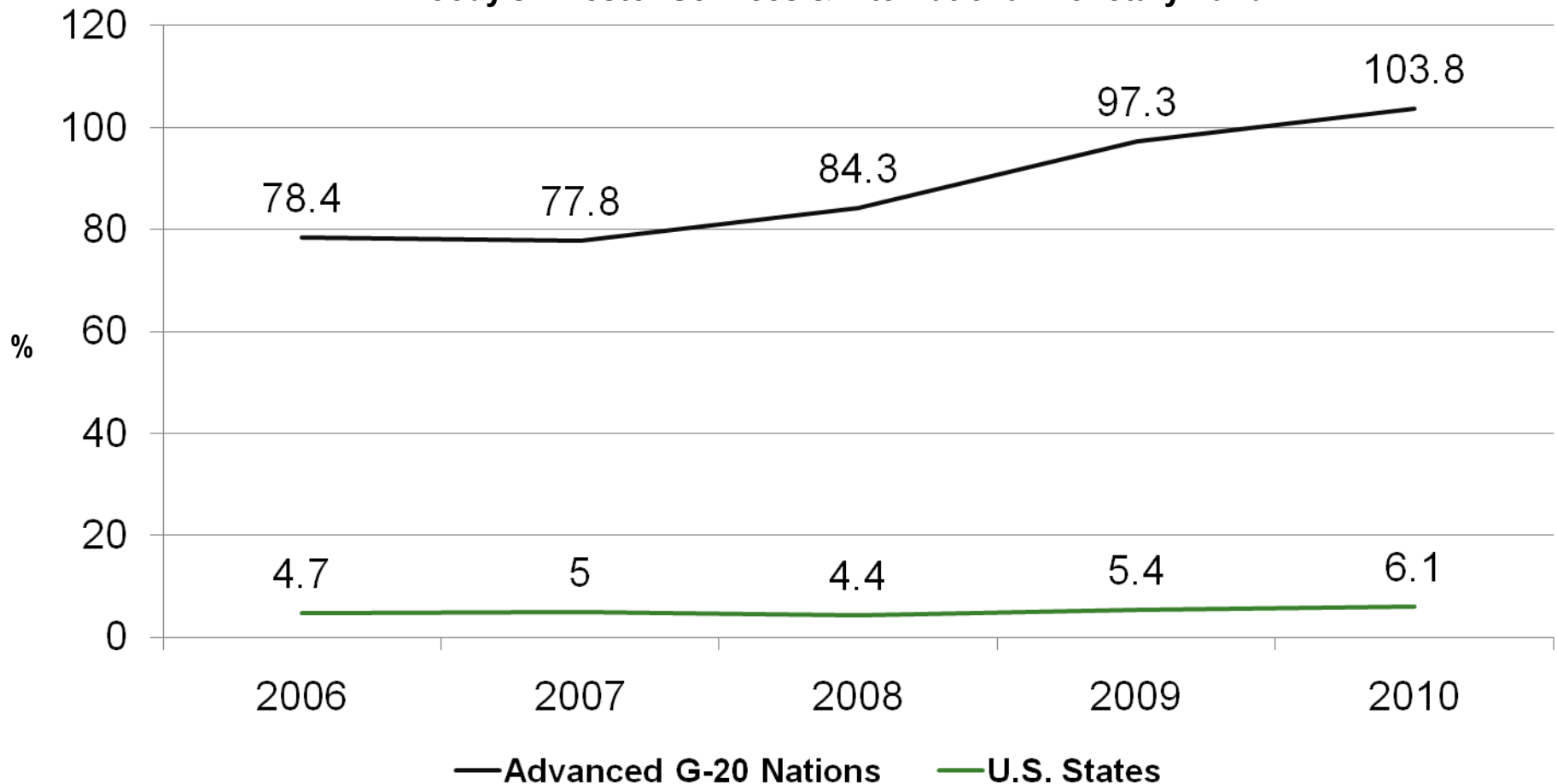
Who's best positioned?



Source: Federal Reserve Bank of Kansas City, Economic Review, Fourth Quarter 2009

State Debt Not the Problem

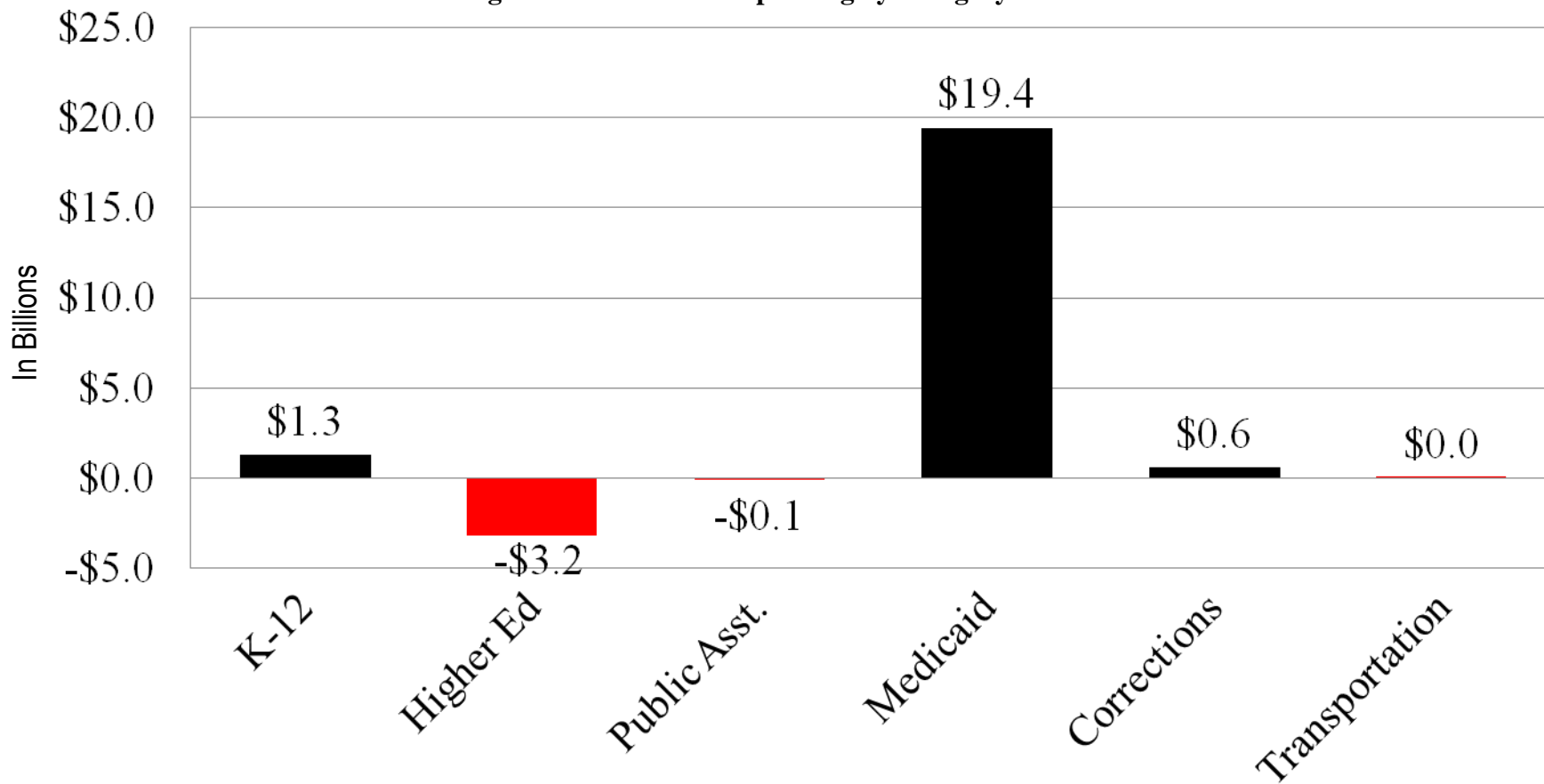
Debt-to-GDP: U.S. States Compared to Advanced G20 Nations –
Moody's Investor Services & International Monetary Fund



Current Fiscal Situation: Indicators

Medicaid Continues to Drive General Fund Spending Growth

Changes in General Fund Spending by Category Between FY 2011 and FY 2012

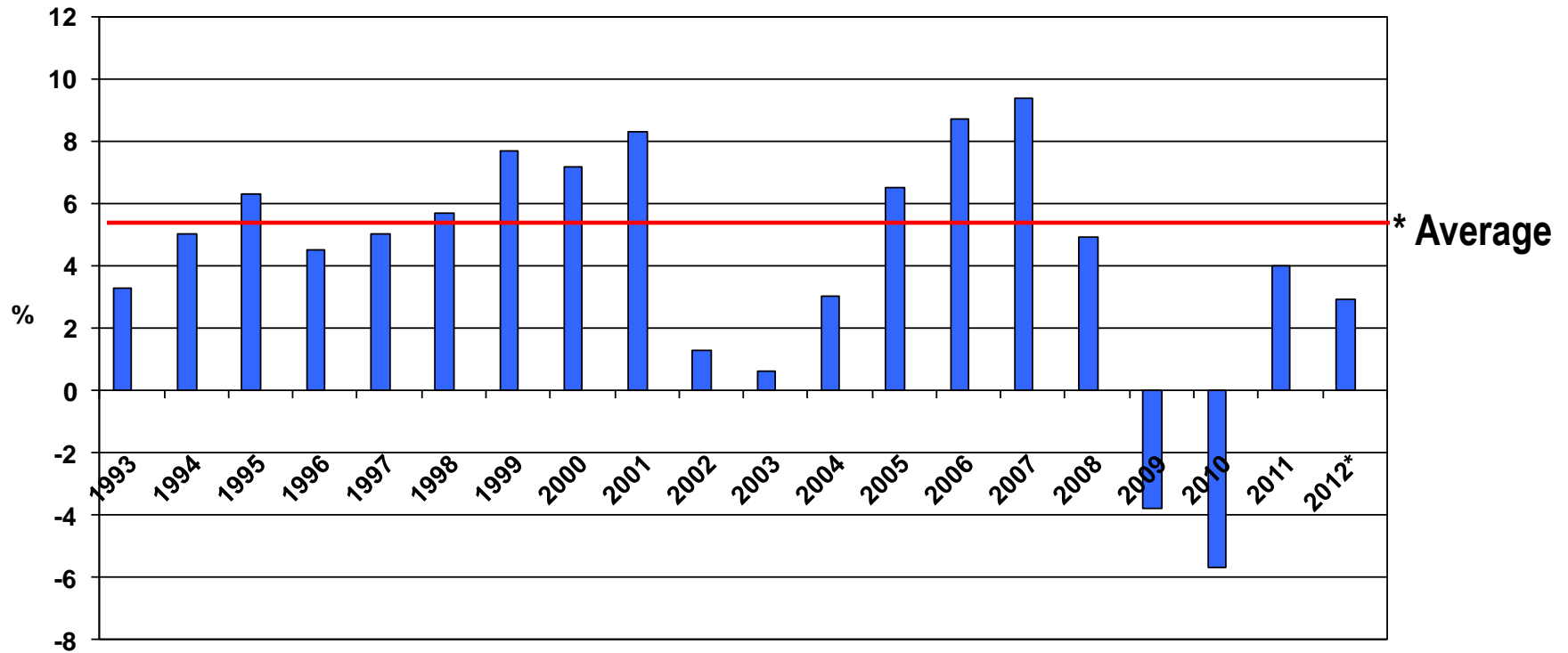


Data is based on comparative levels of enacted spending in FY 2011 and FY 2012
Source: NASBO Fall 2011 Fiscal Survey of States



Budget Growth

General Fund Expenditure Growth (%)



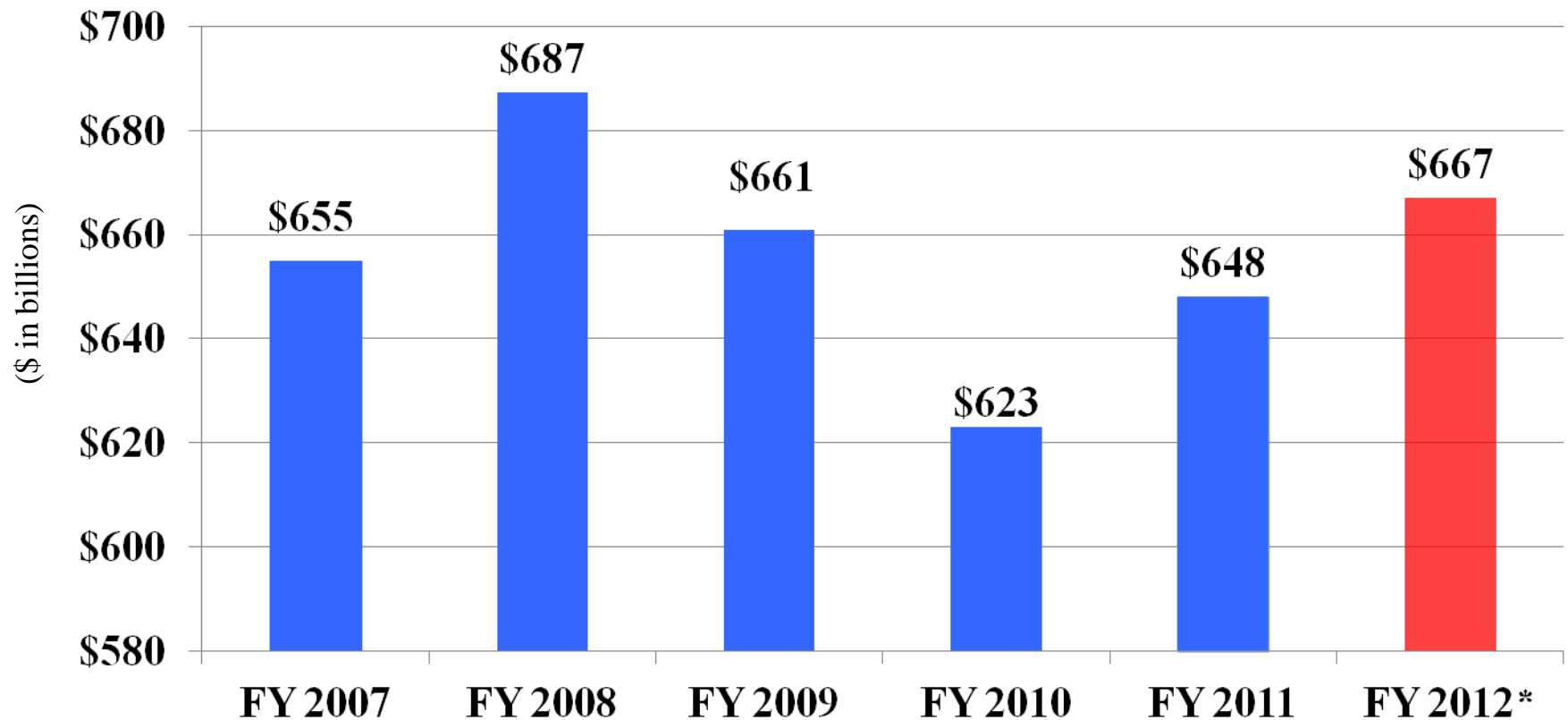
*34-year historical average rate of growth is 5.6 percent
Source: NASBO Fall 2011 Fiscal Survey of States

*Fiscal '12 numbers are appropriated



FY 2012 Spending Remains \$20 Billion Below FY 2008

General Fund Spending: FY 2007-FY 2012 (in billions)

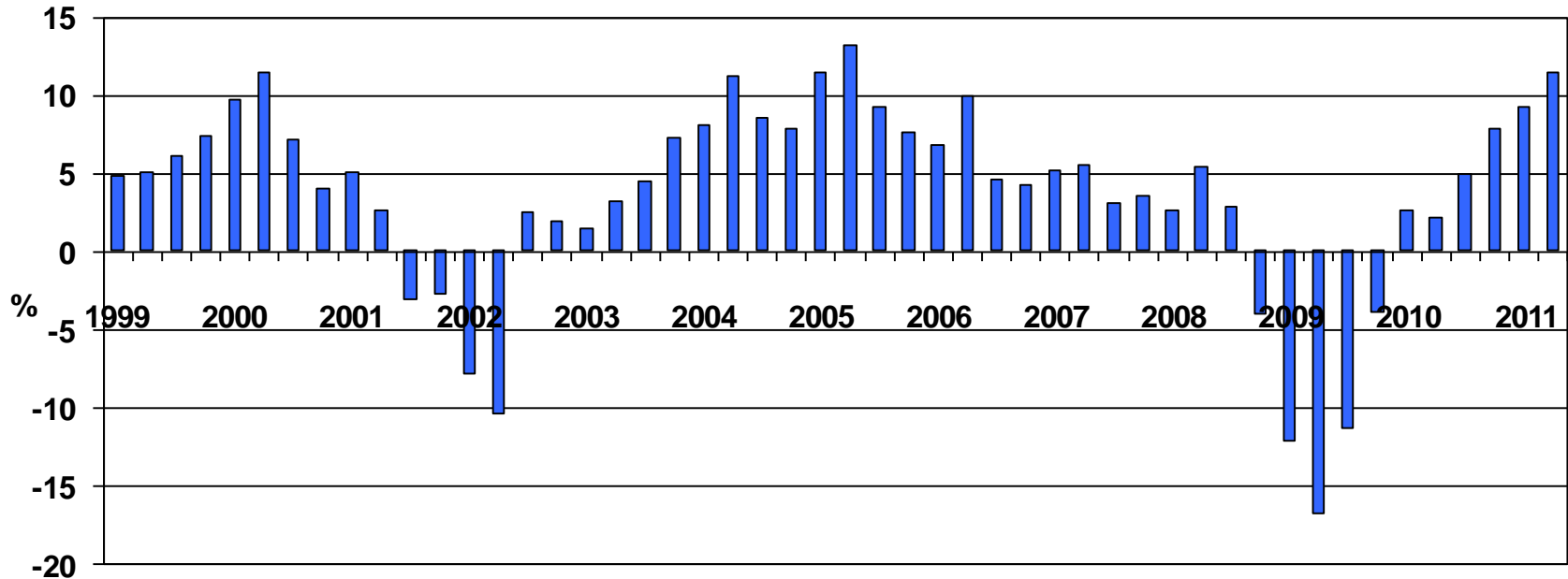


** FY 2007 – 2010 are actual, FY 2011 is preliminary actual and FY 2012 is enacted.*



6 Quarters of Revenue Growth Following 5 Quarters of Declines

Year-Over-Year Real Change in
Quarterly State Tax Revenue

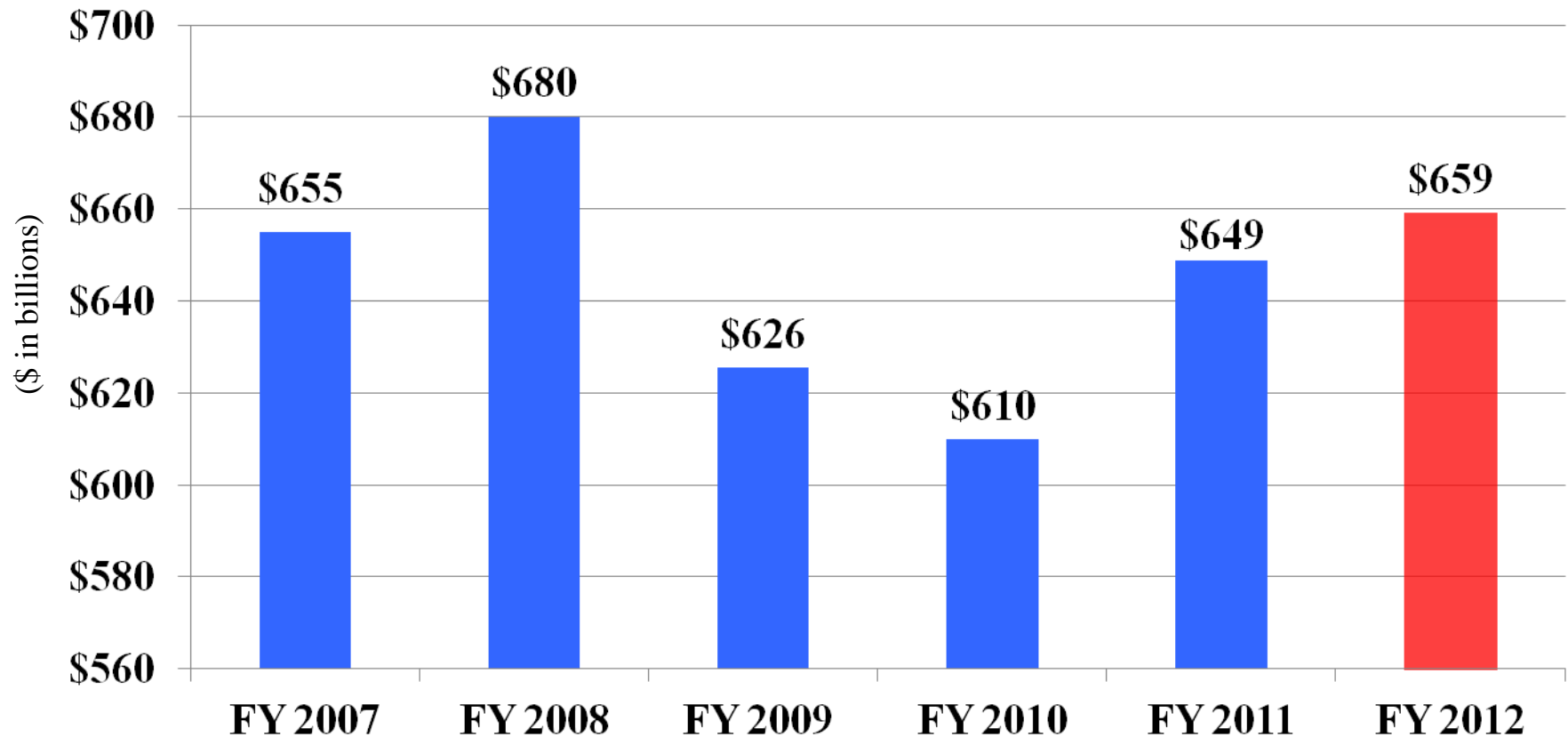


Source: Fiscal Studies Program, Rockefeller Institute of Government; U.S. Census Bureau



Revenue Remains Below Pre-Recession Levels

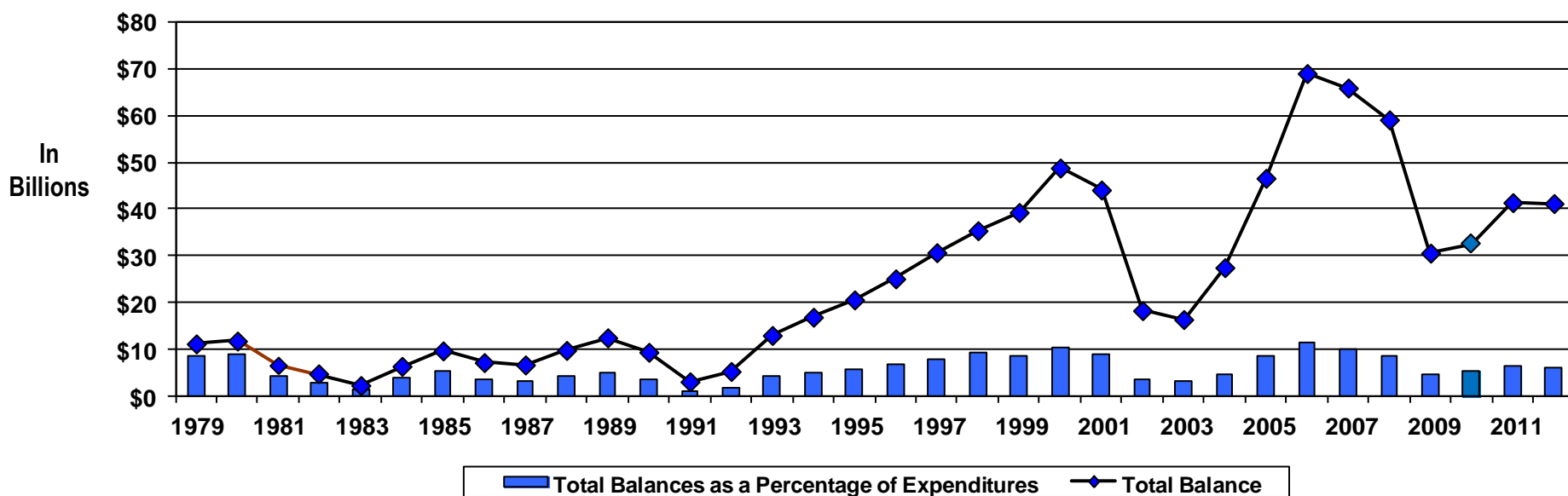
General Fund Revenue: FY 2007-FY 2012



** FY 2007- -2010 are actual. FY 2011 is preliminary actual and FY 2012 is enacted.*

State Balance Levels Recovering

**Total Year-End Balances and Total Year-End Balances as a % of Expenditures,
Fiscal 1979 - Fiscal 2012**



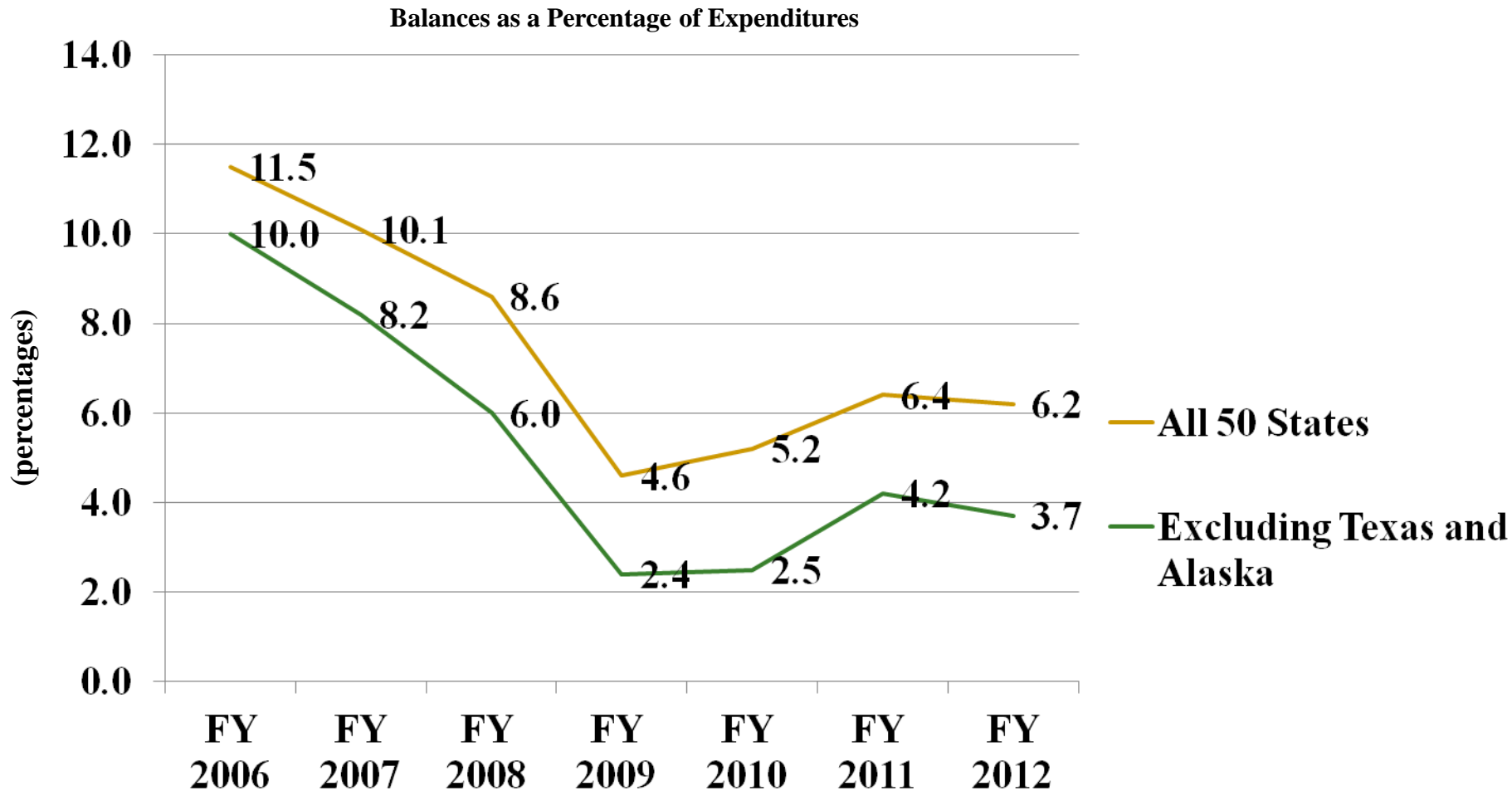
* Fiscal 2011 totals are preliminary actual and fiscal 2012 are enacted

**34-year historical average is 5.8%

Source: NASBO Fall 2011 Fiscal Survey



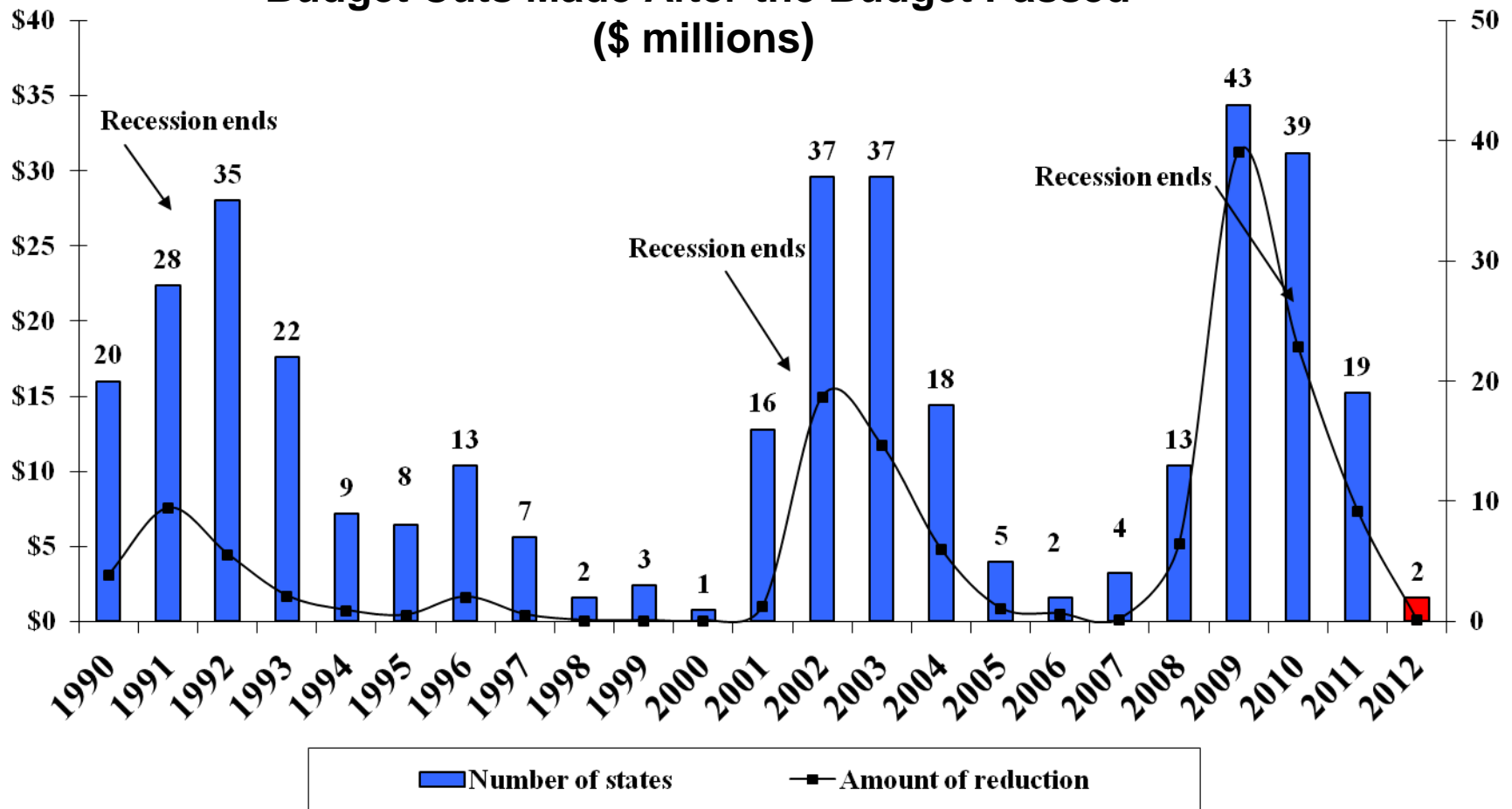
Total Balance Levels Remain Low for Most States



* FY 2006 – FY 2010 are actual, FY 2011 is preliminary actual and FY 2012 is enacted.

Mid-Year Budget Cuts

**Budget Cuts Made After the Budget Passed
(\$ millions)**

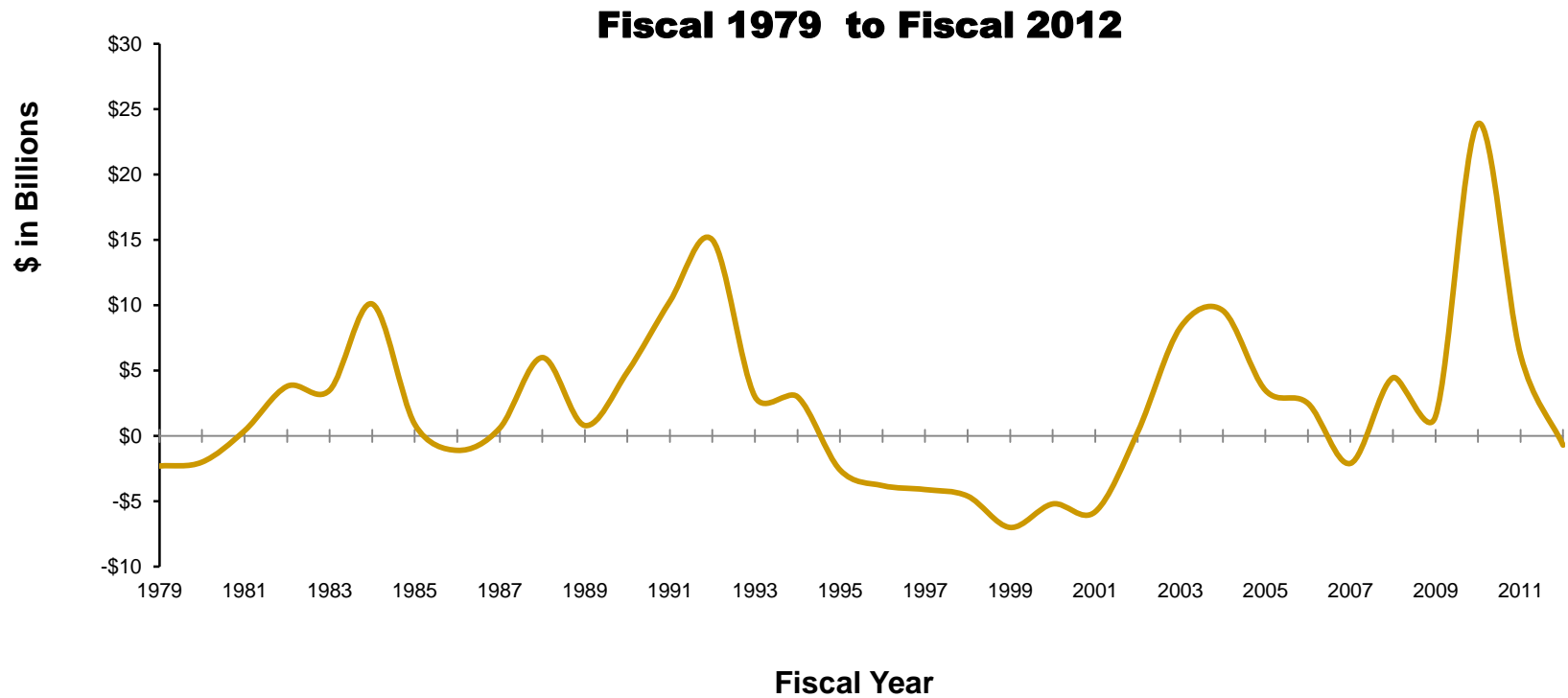


*FY 2012 mid-year budget cuts are ongoing

Source: NASBO Fall 2011 Fiscal Survey



Taxes



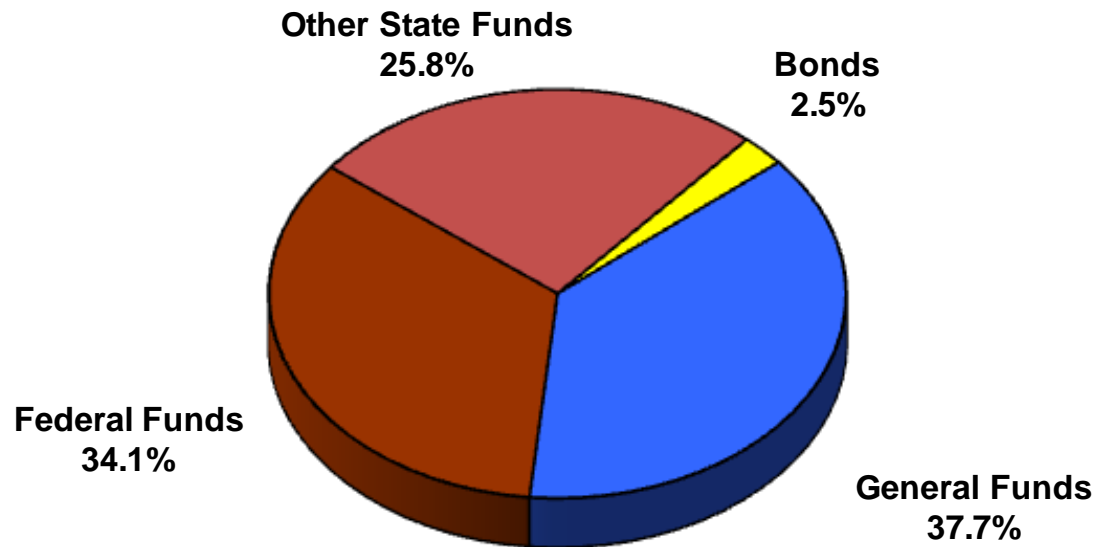
Source: NASBO Fall 2011 Fiscal Survey of States

FY 11-12

Background on State Spending Trends

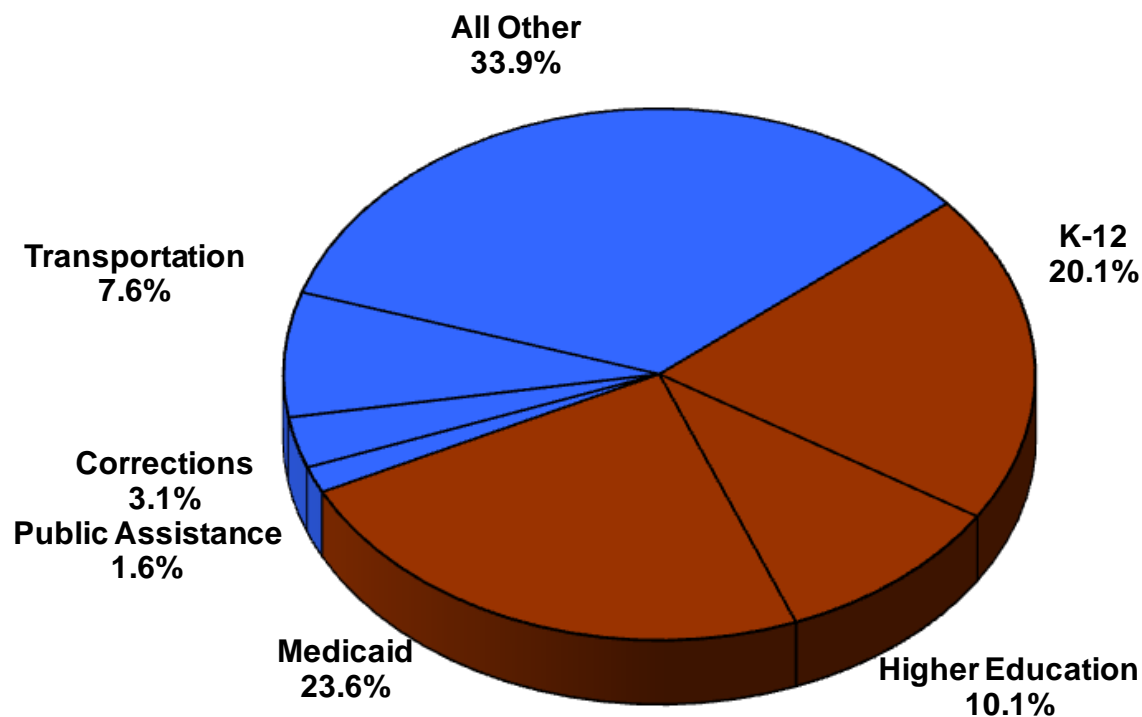
Spending by Funding Source (High Percentage Federal)

Total State Expenditures By Funding Source, Estimated Fiscal 2011



Total State Expenditures: Medicaid Grows Again

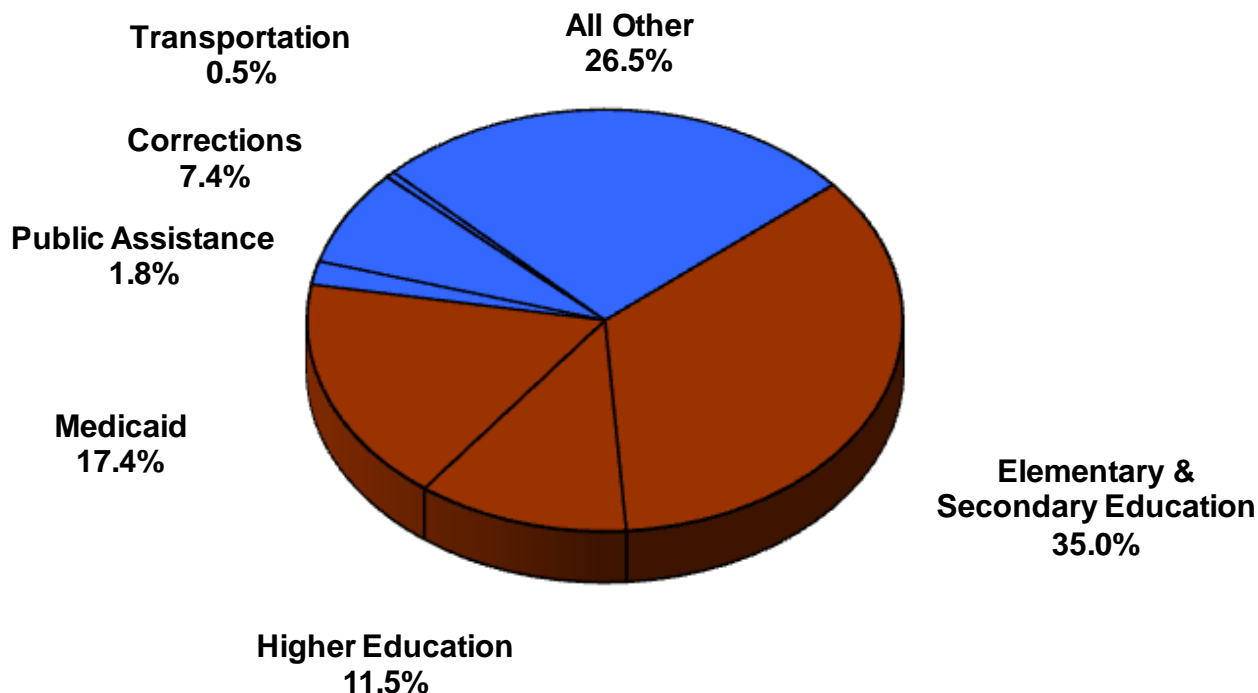
Total Expenditures by Function, Estimated Fiscal 2011



Source: NASBO 2010 State Expenditure Report

General Fund: Growing Medicaid & Education 64%

General Fund Expenditures by Function, Estimated Fiscal 2011



Source: NASBO 2010 State Expenditure Report



Trend Continues: **Focus on Outcomes**

- Focus on results and ***outcomes***
- Spend funds for effective programs
- Improve management



Outlook



State Fiscal Outlook

- **Trends positive**
- **Back to pre-recession levels soon**

But...

- **Spending pressures will continue**
- **Federal funds will decline**



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